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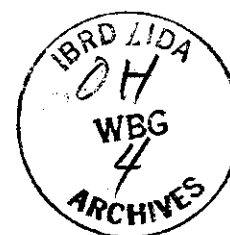
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A CONVERSATION WITH RALPH HIRSCHTRITT

WASHINGTON, D.C.

November 22, 1985

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CONVERSATIONS ABOUT GEORGE WOODS  
AND THE WORLD BANK

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HIRSCHTRITT: Douglas Dillon was Secretary of the Treasury under President Kennedy, and Henry Fowler ("Joe" Fowler, as he was known) was Under Secretary. I think at the time, if my memory is correct, Joe Barr was the Legislative Liaison. On the international side, you had John Leddy as Assistant Secretary of the Treasury. This was in '61 and '62. They went through the first IDA Replenishment with negotiations completed shortly after Woods came into the Bank in January '63. John Bullitt became the Assistant Secretary of the Treasury. Under Leddy, I was the Special Assistant to the Assistant Secretary. Then, at some point in this interval, I got promoted to Deputy to the Assistant Secretary. My responsibilities at the Treasury included the World Bank. Leddy, in his tenure, and Bullitt, in his tenure, were the U. S. Executive Directors of the World Bank, the IDA, and the IFC.

The drill at that time was to use the Assistant Secretary of the Treasury (International) as the U. S. Executive Director, which was, in many ways, a good idea. I'm not quite sure how the Bank presidents reacted to that. I think George Woods didn't like it because the Assistant Secretaries were always busy with non-bank matters; they were line officers with responsibilities to the Treasury in the broad field of international finance and to the Congress. More

recent methods resulted in appointing a U. S. Director at the World Bank who reported to the Treasury but was not involved in other Treasury activities.

OLIVER: Not a line officer?

HIRSCHTRITT: He was paid by the Bank, which didn't matter except for the salary level. Who paid him didn't affect how the U.S. Director voted. That was determined by U.S. policy and U.S. Treasury instructions.

OLIVER: When did that practice begin?

HIRSCHTRITT: That began with Livingston Merchant, who was Executive Director while Winthrop Knowlton was Assistant Secretary and Henry Fowler was Secretary of the Treasury. I have the date somewhere, but I don't think I will find it quickly. It was in about 1966.

OLIVER: Never mind; I can find that out. You were an Alternate Executive Director, were you not?

HIRSCHTRITT: In 1964 and 1965, in addition to any general Treasury responsibilities, Leddy, who was Assistant Secretary, related to the Bank as well as the Fund. During his tenure, Earl Cocke was the alternate at the World Bank paid by the Bank. He was not part of the Treasury staff.

OLIVER: Was that at the same time Livingston Merchant was. . . .?

HIRSCHTRITT: No, it was earlier, in 1961-1964, that Earl Cocke was the U.S. Alternate Director. He was quite an interesting character. He is a story unto himself.

OLIVER: Where did he come from? Was he an investment banker?

HIRSCHTRITT: No, he was a political appointee, appointed not because of any background in this field. He came from some State in the nearby South. He was active in the American Legion and things like that. He is a story unto himself. I don't recall enough at the moment to tell you too much about it. He was an interesting man. He was not an investment banker as far as I can recall, nor was he an economic development man. At any rate, he left at some point to run for political office and there was a vacancy. I was the temporary Alternate U.S. Director from May, 1964, to September, 1965. While I was full-time Deputy Executive Director, I still retained my responsibilities at the Treasury: I reported to the Assistant Secretary who was my boss at the Treasury.

OLIVER: He was the Executive Director?

HIRSCHTRITT: He was the Executive Director: John Bullitt.

OLIVER: So your term did not run concurrently with Livingston Merchant?

HIRSCHTRITT: No, no. When Livingston Merchant was appointed as US Executive Director, Bernie Zagorin came with him from the Treasury as a full-time Alternate Director. I went back to my Treasury roles which included World Bank matters as far as the US was involved. Merchant and Zagorin were full-time representatives residing at the Bank like other Executive Directors. That must have started late in September, 1965, which is about the time the question of the Second Replenishment of IDA began to stir things up.

OLIVER: Do you know whether Mr. Woods personally had a hand in

choosing Livingston Merchant?

HIRSCHTRITT: He was interested in having a full time US Executive Director and certainly was consulted. I don't know to what extent. I don't recall now. Livingston Merchant was a very prominent government official in the State Department. I think he was Under Secretary of State. He had a very prominent background, and he had good relations with the Congress which, among other things, Secretary of Treasury Fowler considered quite important. He was a hell of a nice fellow as I recall.

Zagorin previously worked at the Treasury. He worked with me. He was a very competent fellow fully acquainted with economic development problems and economic development. He stayed at the World Bank for about a year and then became a director of the Asian Development Bank. Gene Black was involved in that area. You remember Gene Black?

OLIVER: Yes. I do, indeed.

HIRSCHTRITT: Black was active in the Asian Bank formation. But those are just dates which you didn't want. Where were we now?

OLIVER: Who was the single most important American liaison between the Bank and the Treasury Department in the years '65 through late '67?

HIRSCHTRITT: That's an embarrassing question. I will have to mention several people. At first, Bullitt was there, Bullitt and me. Of course the Secretary was not many streets away and took a close interest. The Secretary was involved -- Fowler; and when Livingston Merchant came in, I guess it was he and Knowlton and myself with the

Secretary of the Treasury paying close attention.

OLIVER: So even after you ceased being Alternate Executive Director and were full time back in the Treasury, you still continued to have some contact.

HIRSCHTRITT: I continued to have a very close contact.

OLIVER: You're the man I need to see then.

HIRSCHTRITT: Well the problem is I can't remember most of that stuff. My notes are missing. They are in the Treasury. I have to go through all kinds of security checks to get to see them, I guess.

OLIVER: Well, tell what you can about those years and the IDA replenishment problems.

HIRSCHTRITT: Yes. I guess the replenishment problem goes back before the Second Replenishment. Soon after the First Replenishment -- I guess Secretary Dillon was in office then, we bounced around what happens here and there and elsewhere for the incoming Secretary: briefing books and position papers. We began to think about where you go right after we got the first piece of change. We also consulted with other departments; AID, or whatever its name was at the time, and the State Department were very active in thinking about these things.

We at the Treasury felt that there should be a significant increase in the AID resources but within bounds of political realism in the US. The Treasury was multilaterally oriented, and some other agencies were more bilaterally oriented. [There were a lot of poles, and I didn't know which direction we should you go in.] The Treasury had the major responsibility for the international banks. We had a

National Advisory Council (Treasury, State, Commerce, AID, and the Fed Reserve) which reviewed specific loans and other aspects of Bank activity from the US point of view, so that it was also an inter-agency affair. The Treasury was accused in two directions: one, favoring the multilateral institutions and pushing them, and, two, being rather niggardly about giving aid, which wasn't true.

The thinking at the Treasury at that time was that, after the First Replenishment, there should be a substantial increase in IDA. It was a good way of providing assistance with the burden being shared with other donor governments and through an organization, the World Bank, which had our respect and the respect of Congress. We were very Congressionally oriented, because that was where we got the approval for the money. At that time, bilateral aid didn't have as much of the respect of the Congress, although it was a growing phenomena in finances.

We were questioned by our boss about what you can expect realistically in terms of increases. To jump too far ahead for a second replenishment would be unrealistic. Congress thought the World Bank was a good institution, but there were a lot of problems going on at the time which made IDA not as readily acceptable; it took money, 40 percent or more, from the US -- that is appropriations, whereas the World Bank relied mainly on guarantee authority rather than on appropriated funds. We envisaged that there would be some significant increase, but not an unrealistic one: a jump to \$2 billion a year would have been an unrealistic increase from the going amount for the

US.

You should remember that the balance of payments had been considered a serious problem. From time to time, the dollar was under attack. Certain European countries did not feel comfortable accumulating more dollars that flowed out as a result of our balance of payments deficits. We were on a gold standard, or an approximate equivalent of it and that added to discipline us financially. There were balance-of-payments restraints on a variety of US activities. When President Kennedy came in, he had a balance-of-payments message. He had another balance-of-payments message in his tenure. There was Presidential and Congressional concern. President Johnson kept close watch on measures to restrain the payments deficit.

A number of steps were being taken to improve our balance of payments. This was considered a deep and significant problem. When the attack on the balance of payments seemed to be getting along in '65, the Viet Nam War was heating up again, and that caused military expenditures and brought the balance-of-payments problem back to where it reversed the improvement trend. The numbers at the time, when you look at them now, may seem insignificant, but were impressive at the time.

OLIVER: That is because of the inflation since then.

HIRSCHTRITT: The inflation, and we have gotten used to a whole new order of. . . .

OLIVER: Imbalance.

HIRSCHTRITT: Trade and payments imbalance. At an earlier time, our

payments imbalance was good internationally. We were supplying needed capital to the world. After World War II, the US supplied capital in an effort to improve the world economy, but the world economy had improved, and the US was still putting out money. The dollar shortage was becoming a dollar glut. The Europeans didn't care to hold dollars to the extent they were getting them. Some of them even wanted to buy gold which was their right under the gold standard system. At that time it was kind of a sin, however -- an attack on our reserves.

OLIVER: I remember.

HIRSCHTRITT: So the balance-of-payments problem was heating up again, although it was in existence from the Kennedy administration on and from before they came in. There were also tax problems and budget problems.

Woods and associates began to talk about the Second Replenishment shortly after agreement on First Replenishment was completed. Now, the time sequences begin to get a little vague in my mind, but the essence of it was that Woods wanted a substantial replenishment, and the question was how the US should react to that. Without recalling the chronology, the major US and Treasury Secretary's reactions that I recall, and I was closely involved in this phase, was: "OK, we will go for a substantial amount provided that we get a balance-of-payments safe guard." The US was willing to go for any reasonable amount (I'm throwing in the word "reasonable" for almost any amount) provided the other countries would go along and so long as we had reasonable balance-of-payments protection. I don't think, if I

recall correctly, that the latter part of our statement was well received by Woods. If I recall correctly, he objected to our introducing balance-of-payments safeguards into the negotiations.

OLIVER: I don't think that proposal was well received by the other member countries.

HIRSCHTRITT: Before we get to the other member countries, our bilateral aid was tied, and I think he thought we were suggesting tied assistance through IDA, which was contrary to the spirit of the World Bank.

OLIVER: Contrary to the charter of the World Bank.

HIRSCHTRITT: Well, we probably would have done it in a way where it wasn't contrary to the Charter. We had good lawyers.

OLIVER: This must have been about the time that the Bank itself did a study to try and show that the dollar aid given through IDA was in fact spent to buy American goods, so that IDA need not have been a balance-of-payments problem. Do you recall that study?

HIRSCHTRITT: Yes, I recall several studies of this variety, because at the same time that we had the IDA question, we also had questions about the World Bank's coming into the capital market to float bonds.

OLIVER: I think there was a time in '66 when the Bank was denied permission to float bonds in the US market.

HIRSCHTRITT: Well, usually we didn't have formally to deny it. This was discussed, and we would tell the Bank to look elsewhere, actively; after they did financing elsewhere, maybe they could come here. In all of this, we also had to go to the Congress and show them that the

World Bank was not damaging our balance of payments in terms of the percentages. We couldn't show it in the case of IDA, as I recall. While our share was 40 percent, I think the balance-of-payments impact -- procurement in the US -- was say, 20 percent. Overall, we used to show that the World Bank was not harmful to our balance of payments. It was kind of a mercantilistic way of looking at things, but sometimes you had to look at it that way.

OLIVER: Did the Treasury do studies of its own on this subject, or did it pretty well accept whatever studies were done in the World Bank?

HIRSCHTRITT: Well, the information basically had to come from the World Bank, because they were the ones who kept procurement and expenditure statistics, but we certainly looked at the figures ourselves, and we also consulted with the World Bank staff. We were buddies; we were not fighting each other; we were all interested in the same thing. Occasionally we fought with each other. I don't think Woods at that time took seriously the fact that the US was not going to participate unless it got balance-of-payments safeguards. I think, if I recall correctly, there was no give as far as the US was concerned on moving without safeguards.

OLIVER: I take it this must have been discussed at the highest levels of the Treasury.

HIRSCHTRITT: I'm talking about the highest levels of the Treasury.

OLIVER: I understand.

HIRSCHTRITT: The Secretary of the Treasury was for IDA for the amounts proposed by the Bank. He certainly said that he would go along

with the amounts that the Bank felt necessary provided we had balance of payments safeguards.

OLIVER: OK.

HIRSCHTRITT: It was not the US that cut down the bidding, it was the Europeans. The US had to insist on maintaining its share -- the percent or portion of whatever total amount might be agreed upon. It was clear that Congress would not approve an increase in the US share. As a matter of fact, they looked for a decrease, and I think one of the lesser points that we may have made was to seek ways of reducing our share. I think it actually went down to 40 percent from 42 percent. These numbers may seem silly, but they were significant in terms of the people we were dealing with who had to pass the legislation, and they were indicative of trends. This was the burden sharing aspect of the problem.

After considerable time in talking of balance of payments safeguards, we began to work with the Bank -- I believe with Irving Friedman -- to see what we could work out, and we came close to a formula. I don't know whether it was the same, or close to what we finally ended up with, which provided that the US would pledge its share but make actual payments to IDA based upon procurement in the United States resulting from IDA assistance. This arrangement would go on for the first three years, after which we would put in the rest of our share. This was the end of the queue arrangement, so called.

I recall that the Bank was at first most reluctant to give balance-of-payments safeguards but finally this formula was worked out

by the Bank staff (Irving Friedman). When we met with the Europeans, they were also reluctant to provide balance-of-payments safeguards for the US -- even though they did not come in with clean hands themselves in terms of tied aid in their own programs. They were the beneficiaries as far as IDA procurement went. They were reluctant too, and it took several meetings and a lot of persuasion on that and on the share question which was already a big stumbling block for the Europeans. I guess there was also the duration question (the number of years covered by the replenishment exercise). The duration question was not prominent: it was beginning to be accepted that it would be a three year replenishment. Burke Knapp was active in this. George Woods was closely involved. The President of the Bank and the Secretary of the Treasury and the Assistant Secretary (International) were closely involved through all stages of these negotiations.

OLIVER: Well, sir, I want to thank you for a most interesting and informative conversation. You have clarified a number of important issues.

#### ADDENDUM

After the conclusion of the taped conversation, Mr. Hirschtritt added the following points: Congressman Otto Passman, an important member of the House Appropriations Committee, was a major opponent of the Second IDA Replenishment. On September 27, 1968, Secretary Fowler explained the Treasury position in a significant letter to Senator Sparkman.

Hirschtritt personally led a tour of Congressmen to see some Bank financed projects. The US government accounting office undertook its own audit of World Bank activities — a practice not undertaken by other member governments. Some member governments opposed this practice even though it was agreed to by Robert McNamara who later set up an independent evaluation unit within the Bank. Hirschtritt has no doubt that the U. S. Treasury pushed as hard as it could for the Second IDA Replenishment with the Bank within the US and with the Congress which, as far as the US share was concerned, was the final determinant of US appropriations. The Treasury was firm in its support of multilateral aid through the World Bank and IDA generally.